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STATE FOR EUR/CARC AND EUR/ACE  
COMMERCE FOR 4231 DANICA STARKS  
TREASURY FOR OIA

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SUBJECT: FINANCE MINISTER HEARS USG RECOMMENDATIONS FOR  
REVENUE AGENCY MERGER AND IMPROVING TAX COLLECTIONS

REF: TBILISI 2749

¶1. (U) On October 25, Econoff presented Finance Minister Aleksishvili with a non-paper on consolidation of the GOG revenue agencies (the tax administration, the customs service and the financial police) that the Ambassador gave to PM Noghaideli at their meeting on October 13 (reftel). Econoff also gave Aleksishvili a copy of a letter that Paul Sunkes, the Treasury-funded USG advisor to the tax administration on collections issues, sent to Aleksishvili in September. Sunkes' letter contained final words of advice, since his program has now ended. Econoff stressed that the USG suggestions for the reorganization of the revenue agencies stemmed from our several ongoing programs of assistance for all three agencies and an INL-sponsored conference in Gudauri that focused on cooperation among the agencies, as well as concerns voiced by the local American Chamber of Commerce. He stressed that the main need is for written, coordinated regulations that allow the tax and customs authorities to develop cases and refer them to the financial police, rather than having the financial police driving enforcement efforts. He also reminded Aleksishvili of the concerns expressed by the revenue agencies about the threat of criminalization of their good-faith decisions by the financial police.

¶2. (U) Aleksishvili told Econoff that the consolidation process was going well, that legislation is being drafted and that it should be enacted by parliament in December. The actual implementation of the merger will take place in early ¶2007. He said that the decision of who should run the new agency has not yet been made. He admitted that he had heard rumors the new revenue agency will be headed by the financial police and that the business community is not happy about that. He said that the decision of who will head the agency is a political one that will involve the Prime Minister and the President. He said he understands that the leadership of the new agency will set the tone for its activities, and he supports the concept that customer service, rather than police enforcement, should become the theme of the tax system under the combined revenue agencies.

¶3. (SBU) Econoff also explained Sunkes' strong recommendation that the government use authority it already has under law to create imputed tax returns for persons who have not filed any return at all, based on information available to the agency from past returns or independently-acquired information. This action is intended to force the taxpayer to file a return to contest the tax assessment. Once Aleksishvili understood what Sunkes is talking about, he brightened at the idea. Although Sunkes' letter has been in Aleksishvili's possession for some weeks, he did not seem to have focused on

it until this meeting.

14. (U) Copies of the Embassy non-paper on consolidation of the revenue agencies and the Sunkes letter are being faxed to EUR/CARC.

TEFFT